UNITED STATES SENATE
REPUBLICAN
POLICY COMMITTEE

Larry E. Craig, Chairman
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<u>Baucus: "I don't think this one does it."</u>

Graham-Kennedy Medicare Prescription Drug Bill Doesn't Get the Job Done

Senate Republicans are committed to adding a permanent, responsible prescription drug benefit to Medicare. Specifically, Republicans support an improved Medicare that lowers the cost of prescription drugs now, and that provides coverage to low-income seniors and those with no prescription drug coverage, as well as to those with unusually high drug costs.

The Democrat prescription drug plan (S. 2625) offered by Senators Graham of Florida and Kennedy last month fails to achieve those principles. By loading the costs up front, the Graham-Kennedy proposal essentially doubles the cost of other proposals while undermining the ability of Medicare to survive in the future. Moreover, the bill sunsets just five or six years after it starts, forcing seniors to worry whether a future Congress will maintain their prescription drug benefits through spending cuts and/or tax increases.

As Finance Committee Chairman Max Baucus recently observed, "I don't think this one does it. . . . I want to get the job done. I want to help seniors." Senate Republicans agree, and are dedicated to devising a responsible prescription drug benefit that doesn't drive up taxes or bankrupt Medicare. The Graham-Kennedy plan, on the other hand, simply doesn't "do it."

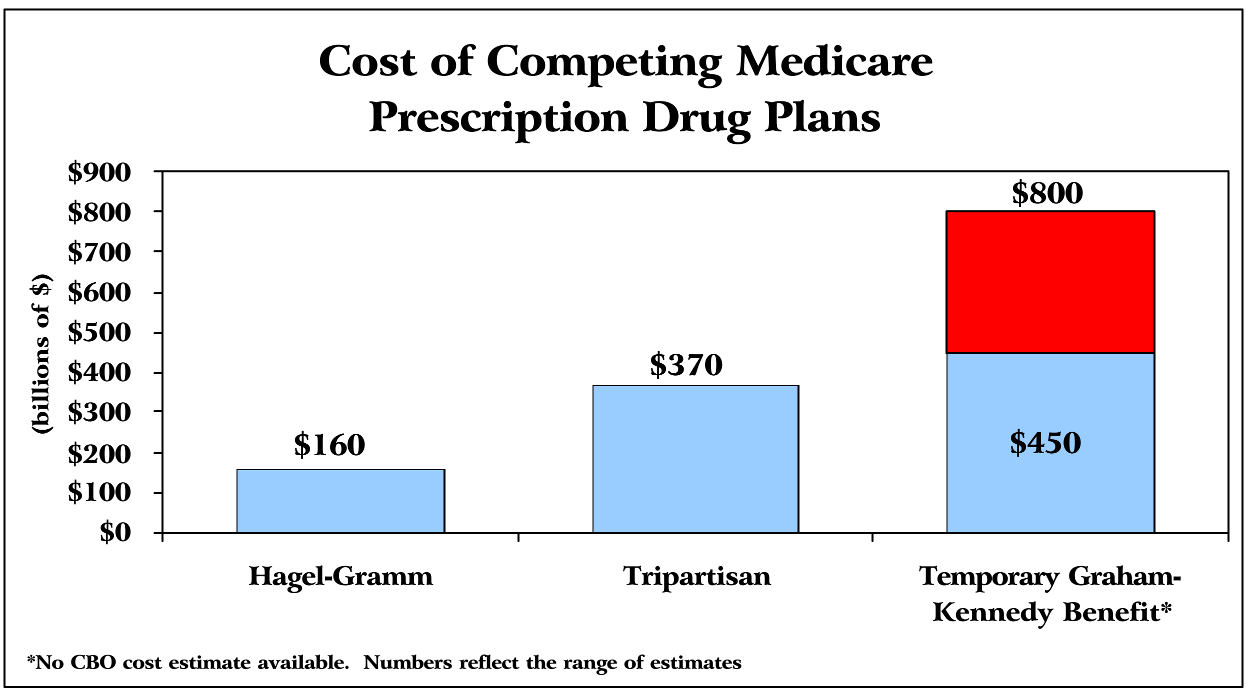
"Largest Expansion of Medicare"

In joining with Senator Kennedy last month to introduce a new Medicare prescription drug plan, Senator Bob Graham described his bill as "the largest expansion of the Medicare program since its inception in 1965." Senator Graham may have understated it: this proposal well may be one of the most expensive government programs ever considered by the Senate.

Just how expensive is difficult to say. The Congressional Budget Office (CBO) has been unable to provide a cost estimate to date, due to the bill's novel fixed copayment levels. But supporters have cited a cost of between $450-$500 billion. Taken at face value, a $500-billion price tag is eye-popping.

Just last year, Senator Graham's proposal cost around $300 billion. During the budget debate last year, he stated, "Apparently, we have now agreed that it is going to take in the range of $300 billion over 10 years to have a credible prescription drug benefit. That's a significant advance." One year later, and Senator Graham is demanding $200 billion more. That's a significant retreat.

But don't be fooled – the $450-to-$500 billion price tag cited by the plan's sponsors is at the low-end of the estimate range. The Department of Health and Human Services worries that the "true"



cost of the plan may be $600 billion or more. Even this price underestimates the real cost of the Graham-Kennedy bill. It's temporary, remember? The bill offers seniors prescription drug coverage for no more than seven years, from 2004 to 2010. Extended through 2012 like the other plans, the Graham-Kennedy bill's cost would push up to $800 billion. That's why they made it temporary – to hide the cost.

Threat to Medicare and Taxpayers

According to the CBO, Medicare spending over the next 10 years will total $3.2 trillion – without any additional benefits. While testifying before the Ways and Means Committee in April, CBO Director Dan Crippen raised the following concerns regarding Medicare's rising costs:

> . . . CBO is projecting faster Medicare growth over the next decade. We estimate that Medicare spending will more than double – reaching $491 billion – by fiscal year 2011, reflecting an average increase of 7.7 percent per year. At that rate, Medicare spending in 2011 will constitute 19 percent of the federal budget, assuming that no change occurs in the current tax and spending policies. In fact, the program will account for 36 percent of the projected increase in federal spending by the end of the decade.

The Medicare trustees' report provides a similar projection: Medicare spending will increase from 2.2 percent of GDP in 2000 to 8.5 percent in 2075. Meanwhile, payroll taxes collected to pay for Medicare (the HI portion of FICA) will total only 2.5 percent of GDP in 2075. Taxpayers will have to fill in that gap.

If Congress adopts Graham-Kennedy, it would raise total 10-year Medicare spending to around $4 trillion. How do Senators Kennedy and Graham plan to pay for their proposal? Senator Kennedy has already come out in favor of repealing last year's tax cuts to finance his aggressive expansion of government. Senator Graham apparently agrees with him.

Responsible Prescription Drug Benefits Now

The Senate has an opportunity to pass a bipartisan, permanent Medicare prescription drug plan this year. The House already has acted, and it's time for the Senate to follow suit. But the bill offered by Senators Graham and Kennedy is not permanent. Nor is it bipartisan.

Worse, the bill is so large that it threatens both the ability of Medicare to continue and the tax relief American families began enjoying just this year. Seniors should not have to choose between lower taxes and prescription drug benefits. Rather, they should be offered a strengthened Medicare that guarantees new and existing benefits at a lower overall cost than they currently face.

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Senator Baucus quote from the *Boston Globe*, 6/12/02